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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 002441

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SUBJECT: AMBASSADOR FINDS STRONG ALLY IN MINISTER OF FINANCE

REF: A. SANAA 647
[1](#)B. SANAA 2006
[1](#)C. SANAA 2136

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Classified By: Ambassador Thomas C. Krajeski for reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY. On August 14, Ambassador met Minister of Finance Dr. Saif Al-Asali who was strongly supportive of the U.S. position on Hezbollah. MOF suggested that Yemen was the best hope for the region in its example as an emerging democracy, and urged the United States to back reformers like him within the ROYG. Asali stressed his commitment to privatization and to the establishment of a Yemeni stock exchange. Ambassador and MOF agreed on the need for further progress on a range of reforms, including customs valuation, public finance management, and regulatory improvements. Asali held true in many ways to his quixotic reputation (Ref A), but has emerged as a positive and increasingly effective force within the ROYG. END SUMMARY.

"Yemen Best Hope in Middle East

[1](#)2. (C) Asali began his August 14 meeting with Ambassador by once again expressing support for the United States, this time in its opposition to Hezbollah in Lebanon. Asali expressed doubt that the current cease-fire would hold, saying the extremist groups are not interested in practical solutions but rather in a "new way of life." Referring to other Arab governments, Asali told Ambassador: "Your friends are cowards."

[1](#)3. (C) MOF said all of the current forces in the Middle East were negative, citing status quo governments, Al-Qaida, radical Shi'as, and the Muslim Brotherhood. Yemen is the only example of an alternative, argued Asali, in that it is moving towards democracy. Despite his rhetoric, Saleh is better than leaders such as Mubarak, in that he uses "dialogue and not force." The development of local councils is a key development in Yemen, continued MOF, allowing people to experiment in a "laboratory of democracy."

Building Trust With the Private Sector

[1](#)4. (U) Ambassador complimented recent progress on economic reform, stressing recent measures to increase transparency in the budget process and in decentralizing fiscal authority. (Ref B). Asali responded that his ultimate goal is to separate the functions of the state from those of the private sector. He expressed his desire to eliminate state-owned enterprises, changing the ROYG's role in business from

competitor to regulator and facilitator. "Government's job is to help business," said Asali.

¶15. (U) Asali recommended a number of areas for continued progress, including an open dialogue with the private sector on tax policy. MOF also referred to the need for training in risk management, image analysis, and value cost to accompany the installation of new Chinese-made scanners. MOF is currently in talks with a Swiss contractor, but Asali expressed his preference for American assistance. Ambassador noted an existing program on customs valuation, funding by the Middle East Partnership Agreement and USAID, which has been stalled due to the lack of appropriate legislation. Asali responded that he was personally taking responsibility for passage of the needed laws.

¶16. (U) MOF also addressed the issue of corporate governance and the need to restructure state-owned companies. At the ROYG's invitation, the Dubai International Financial Center (DIFC) came to Yemen to evaluate these conditions and others as part of an early feasibility assessment for a local stock exchange. Ambassador and MOF agreed that a good regulatory framework was an essential prerequisite for preventing fraud and other negative economic impacts. (NOTE: DIFC is discussing a more extensive assessment with the USG-backed International Finance Corporation, Financial Services Volunteer Corps, and regional office of the Department of the Treasury. END NOTE.)

Gradual Approach to Reform

¶17. (U) Ambassador inquired as to future of the government's reform agenda, and the ministers currently driving it. "Reform can't be stopped now," responded Asali. "It is in the interest of the country and the President realizes this."

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MOF supported a gradual approach to changing Yemen's culture of corruption, but said that overall the interest of Yemen and the United States -- democracy, dialogue, reform -- were the same. Asali implied that the United States should support moderate reformers within the ROYG rather than looking for dramatic and immediate changes.

¶18. (C) Asali expressed his strong personal support for joining the Extractive Industries Transparency Initiative (EITI), but accused the Prime Minister, "a former communist," of standing in the way. Yemen has nothing to fear from EITI, continued Asali, as there is "no naked corruption" in the oil sector. "In fact," said MOF, "the budget is much more accurate than I thought during my days with the opposition. Asali disputed claims that the President and others benefit personally from oil revenue. Ambassador stressed the importance of EITI in boosting investor confidence, particularly as the Overseas Private Investment Corporation considers financing Yemen's liquefied natural gas industry. (Ref C)

¶19. (C) On public finance management reform, Asali noted that the Accounting Financial Management and Information System (AFMIS) will be fully operational at the beginning of 2007, and allow for greater transparency and internal control in the budget process. Ambassador praised MOF's progress, noting that this was a key part of reforms required for the Millennium Challenge Account.

Free Market Qat

¶10. (U) One of the most significant reforms carried out by MOF, according to Asali, was the removal of multiple checkpoints and tolls for qat distribution in Sanaa. Asali said that he has now instructed the Tax Authority to collect

a flat rate tax only at the point of sale, and that the police have been instructed to crack down on independent toll collectors -- generally from the tribes and armed forces. According to Asali, this has resulted in a fifty percent increase in revenue for the Sanaa area, and has put a dent in one of the major sources of corruption. When asked, many residents of Sanaa were unaware of the change and skeptical that it could be enforced.

SUMMARY: Will Reformers Survive?

¶11. (C) Asali added to his reputation as an "out-of-the box thinker," with innovative policies on qat taxation and U.S. foreign policy. At times, Asali may be so far outside the norm of Yemeni politics that he compromises his standing both within the Cabinet and among ordinary Yemenis. Nevertheless, he appears increasingly comfortable in his position and is delivering long-awaited reforms in the Ministry. On the stock market, budget preparation, and other issues, Asali's initially manic tone has settled into a methodical and strategic approach that is focused on delivering results. It will be a litmus test for the ROYG's direction on reform whether Asali and other forward-thinking ministers survive beyond the September elections. END SUMMARY.
Krajeski